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Africa's Supermarket Revolution — Coming to a premature end or undergoing consolidation?

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Introduction

The expansion of supermarkets beginning in the early 2000s is one of the big African retail success stories of the new century. Urbanization and increased incomes[1] may be the key drivers, although other factors play important roles. Liberalization of foreign direct investment (FDI) in the retail segment sparked an avalanche of capital investment.[2] Intense competition, consolidation, and multi-nationalization accelerated the growth of supermarket chains seeking to improve their competitive positioning. Finally, modernization of procurement systems and supply chains reduced costs and increased the competitiveness of the larger chains.[3]

Supermarket expansion in Africa generally followed investments in the largest and/or richest (in relative terms) countries by 'first tier' transnational corporations (TNCs) based in the United States and Europe. The 'second tier' South African-based supermarket chains propelled subsequent waves of growth.[4] These chains led the introduction and expansion of supermarkets in Africa. Shoprite led the second wave, first moving beyond South Africa to its immediate neighbours Lesotho, Swaziland, Namibia and Botswana. The chain then entered Zambia in 1995, where it opened a further 17 stores in less than a decade. It opened its first store in Nigeria in 2005. By 2018 Shoprite operated 25 stores in Nigeria. Currently, Shoprite has operations in 13 African countries outside South Africa with more than 2,900 outlets across the continent. However, its rapid growth is grinding to a standstill, as are the growth trajectories of other international supermarket chains.

This article investigates one main question. Does the ongoing divestment of multinational supermarkets in Africa signal the end of supermarket dominance, or the beginning of a new era that integrates both local content and a smaller footprint into the preferred business model?

We examine four key issues related to this phenomenon: Africa's unchanging shopping habits despite rising incomes, its evolving macroeconomic/financial/fiscal space, how measures to contain the COVID-19 outbreak may have impacted foreign owned supermarkets, and the emergence of an alternative business model. The article explores the potential causes of the recent troubles of supermarket chains in greater detail.

We will examine the supermarket business model and procurement systems, and explore how the people's food market model overcame constraints that inhibited the supermarket chains from procuring locally. We conclude with recommendations.

The evolution of supermarkets

The supermarket model evolved in developed economies, then diffused to the rest of the world. The business model relies on large scale and a well-organised supply chain to offer a wide variety of goods at reasonable prices, and minimises expenses for customer service through its self-service model.

Self-service food shopping is a relatively recent retailing concept. Before self-service appeared, grocery stores kept products behind the counter, and staff passed goods to shoppers. This practice persists in smaller grocery stores in developing markets. In the United States, the self-service business model emerged about a century ago when a Tennesee entrepreneur founded a store chain that allowed shoppers to serve themselves. Scaling up this innovation, the first large supermarkets appeared in Los Angeles and New York City around 1930, and were soon copied around the globe.[5]

In Africa, the model emerged with the first wave of supermarkets in South Africa, around 1980. These catered mainly to upper-income households. During the early 1990s, African supermarket chains spread from major cities to rural towns. The second wave, in the mid-to-late 1990s, brought the supermarket model across national borders to Zambia, Mozambique, Swaziland, and Botswana. During the third wave beginning in the early 2000s, supermarkets arrived in Tanzania, Uganda, Kenya, Zimbabwe, and Malawi. The current “fourth wave” of the African supermarket revolution seeks to expand to Central and West Africa, meanwhile coping with expansion woes, the impact of the pandemic, and the emergence of a “Peoples Market” business model that competes with well-established supermarkets.

One key driver for the supermarket revolution was the rise of the African Middle class. In a 2011 report, the African Development Bank broadly defined a member of Africa’s middle class as an individual with per capita daily consumption of $2-$20 in 2005 PPP US dollars.[6] Based on this definition, the Bank estimated Africa’s middle class as including 34% of its population—nearly 350 million people—up from about 27% from 1980 through 2000.

Within each country market, supermarket chains evolved from serving high–income, to middle income, and finally to lower-income customer segments. Their growth strategy focused on matching outlet design and goods to market preferences, with large supermarkets focused on the elites, hypermarkets serving the middle-classes, and mini-markets and convenience stores located near residential areas to serve poorer households and those on the go.

Kenya was more advanced compared to most African countries (other than South Africa) in terms of the presence of supermarkets. Shoprite was aggressively expanding beyond South Africa. In the early 2000s, Kenya had about 206 supermarkets (with another 10 hypermarkets equivalent to the floor space of roughly 100 supermarkets) -- while Uganda had only one, and Tanzania had four.[7] As Shoprite made its way northward, the only foreign-owned chains in Kenya were Metro Cash & Carry and Woolworths. The sector was composed mainly of locally owned outlets. Four domestic supermarket chains (Uchumi, Nakumatt, Tusker Mattresses, and the Ukwala Group) had first mover advantages.

In recent years, the rapid spread of supermarkets in Africa, driven mainly by FDI from South African supermarket chains, lost momentum. Fifteen years after opening its first outlet in Nigeria, Shoprite announced its willingness to sell "all or a majority stake" of its venture in Africa's biggest economy, Shoprite is busy exiting Kenya, citing underperformance of its outlets. More than half of all urban Kenyans now shop regularly in supermarkets. Supermarkets in Kenya account for 30% of the retail market. Many of these outlets are located in residential areas. Shoprite’s early exit from Kenya after entering the market only in 2018 comes as a shock for many observers. This blow comes shortly after the demise of two of that country’s largest retailers – family-owned Nakumatt and state-owned Uchumi. The causes of the rising trend for multinational supermarket chains in Africa to divest their operations are far from obvious. Some view the business models used by South African supermarkets as unsuitable for conditions outside of their home market. A second popular candidate is the decline of middle class disposable income, due to deteriorating macroeconomic performances by African economies. Others cite fading consumer demand, inflationary forces, volatile oil prices, and the COVID-19 pandemic. These are viewed as major factors in larger markets such as Nigeria, Angola and Ghana.[8] Yet, some observers view the cause as increasingly hostile local political forces, especially to chains based in South Africa.[9]

Do Africans prefer traditional local markets to supermarkets?

Despite their rising incomes, Africans’ shopping preferences are little changed. The available research reports that Africans mainly shop at supermarkets for bulk staple items and processed and packaged foods, and do so infrequently — only once or twice a month. Most Africans purchase food on a daily or near daily basis, and continue to rely on small shops and traditional wet markets for these purchases. This is true even in southern Africa, where the level of supermarket penetration is high.[10]

Why is this? Part of the reason is the proximity of small shops and wet markets, and the small quantities they offer. This is key for clients on a tight budget who have little access to storage space and refrigeration at home. Researchers say that the access to credit offered by local vendors is also important. But another major component is price. Local vendors and markets tend to sell cheaper than supermarkets, even in South Africa, where the formal retail sector is highly developed.

Others argue that Africans avoid supermarkets to avoid the transition towards more highly processed foods that are rich in fat, sugar, and salt, but contain low amounts of micronutrients and other ingredients for healthy nutrition.[11] [12] Recent studies corroborate this fear. Kimeju et al (2015) and Demmlet et al (2018) suggest that the spread of supermarkets may contribute to increased consumption of processed foods and a higher body mass index (BMI), even after controlling for household income.[13] [14]

However, new research challenges this argument, showing that supermarkets are not linked to obesity in children, but that they contribute to reducing under-nutrition in children. Debela et al (2020) argue that households using supermarkets also consume healthy foods such as fruits and animal products more regularly.[15] They argue that not all processed foods are automatically unhealthy. Processing can improve the hygiene and shelf life of foods.

While the positive health impact of supermarkets on children's health is new, most Africans still view supermarkets a source of highly processed foods and like the idea of maintaining traditional markets as source of fresh and unprocessed food, despite the many criticisms about their poor hygiene.

COVID-19 exacerbates already deteriorating macroeconomic indicators

The macroeconomic situation in Africa was deteriorating even before the pandemic. The overall external debt-to-GNI ratio at the end of 2018 was 36 per cent, a small improvement from the previous year, but more than 40% higher than in 2009. Around 2009-2018, the region's combined GNI rose 51 per cent, calculated in U.S. dollar terms, while the combined external stock rose 117 per cent on average. The speed of rise in external debt over this time was even more rapid for some countries (World Bank, 2019). External debt stocks rose 423 per cent in Ethiopia, 38 per cent in Rwanda and 345 per cent in Uganda compared to increases of 159 per cent, 74 per cent and 49 per cent, respectively in GNI. The ratio of external debt-to-export earnings followed a similar trajectory.

Due to the pandemic, the African regional economy is projected to contract by 3.2 per cent in 2020, and is then expected to recover to 3.4 per cent. In nominal terms, the regional GDP in 2020 will be by $243 billion smaller than projected in October 2019. The largest downward GDP fall is in tourism-dependent economies such as Comoros and Mauritius, expected to see a -10 per cent GDP growth rate in 2020. Oil exporting countries face a -4% decline, with other commodity exporters' looking at -3½ %. The more diversified economies (for example, Côte d'Ivoire, Rwanda, Senegal, Uganda) can expect growth in 2020 to remain slightly positive, below 1 per cent.

Central banks expect inflation in the region to increase, reflecting sharp currency depreciation and supply chain disruption. Despite this, several central banks eased monetary stances in response to pandemic-related slowdowns in activity (Democratic Republic of Congo, Ghana, Kenya, Mauritius, South Africa). Others (such as Botswana and Mozambique) lowered reserve requirements to free up liquidity, implemented asset purchase programs (Rwanda, South Africa), or deployed macroprudential measures to facilitate support by financial institutions to aid distressed borrowers (Ghana, Madagascar, Nigeria, and South Africa).[16]

COVID-19 containment measures led to people remaining at home and reducing daily movements to areas offering services and recreational facilities, including the informal economy. Data from Google Mobility Trends—which tracks mobile phone users' location history—confirmed sharp activity contractions in many countries in April. These reductions affected retail and restaurants (30 per cent), tourism and transportation (50 per cent), and workplaces (30 per cent).

This pandemic seriously undermines the purchasing power of African consumers and will reduce the frequency of their supermarket visits. The crisis is set to wipe out nearly 10 years of progress in economic development. Real per capita GDP in the region is projected to contract by 5.4 per cent in 2020, before recovering by 1.1 per cent in 2021. This will pull per capita GDP 7 percentage points below the level projected in October 2019, and nearly back to its 2010 level.

Poor local contract enforcement and disincentives for farmers and supermarkets

We noted earlier that changes in procurements systems drive the early waves of the supermarket revolution. Among the many changes, Reardon et al (2003) argue that centralization of procurement to serve chains as opposed to each store helped ensure diversity, year-round availability, and levels of product quality and safety. However, centralized international procurement can also be a source of weakness. This is the case when operating in markets with unstable macroeconomic variables such as exchange rates. Facing exchange volatility, it may be more cost effective to procure locally, especially if available products meet minimum quality requirements. As noted above, the centralized procurement system is a main feature of the supermarket revolution. However, this model limits the ability of international chains to adapt to local macroeconomic realities.

Farmers generally sell their product to middlemen. This buyer then sells the product on to retailers through processors, or in some cases directly to retailers, processors, or exporters. Farmers and buyers often enter agreements prior to harvest time. These written or verbal contracts set forth terms such as the amount of product the farmer will sell, pricing, specific product quality criteria that must be met, and whether the buyer will provide inputs (e.g. seed or fertilizer) or assistance (e.g. technical training, labour during harvest time) to the farmer. However, there are no regulations in most African countries that specifically govern agricultural contracts. Casual observation[17] suggests that contract enforcement, as applied to agricultural contracts, tends to be weak. Therefore, the terms of contracts, whether verbal or written, are often violated in developing countries (Minot 2011).[18] This uncertainty about procurement from African farmers makes supermarkets nervous.

Studies of contractual agreements between farmers and their off-takers reveal evidence that they can strengthen the value chain to generate win-win conditions. Several studies of the welfare effects of agricultural contracts on small farmers in Africa report positive outcomes for participants. Bellemare (2012) finds that entering an agricultural contract with a buyer can increase incomes from rice and from other income sources for rice farmers in Madagascar.[19] Peanut farmers in Senegal that entered a contract-farming program experienced increased incomes, while their communities saw positive spillover effects in terms of employment and economic growth (Warning and Key 2002).[20] Vande Velde and Maertens (2014) find that contracts lead to greater use of agricultural inputs, better yields, higher farm-gate prices, and increased incomes for rice farmers in Benin.[21]

Researchers have exhaustively studied the determinants of farmers' market participation. Goetz (1992) showed that transaction costs (influenced by the efficiency of markets) affect the marketed surplus rate of smallholder farmers.[22] A market might be limited because of high transaction costs caused by structural constraints, such as poor road conditions, inefficient marketing systems, or limited demand for the product by local consumers or traders due to poor quality. Fafchamps and Vargas Hill (2005) asserted that farmers typically have the choice between selling their output at the farm gate, or transporting it to the nearest market.[23] Barrett (2008) reviewed evidence of smallholder market participation, with a focus on staple food grains such as cereals in Eastern and Southern Africa.[24] His findings suggest that trade policy and other top-down, price-based macro policy instruments were not sufficient to promote smallholder market participation. These policies must be complemented by interventions to facilitate the organization of smallholders, reduce the costs of inter-market commerce, and increase access of poor households to improved technologies and productive assets.

Restructuring the supply chain may be an option. Some private actors invested in organizing smallholder farmers to take advantage of market opportunities offered by supermarkets. One example is Eden Tree, a leading producer and distributor of high-end fresh vegetables, fruits and herbs in Ghana. Eden Tree founder Catherine Krobo-Edusei says, “Supermarkets just want to deal with one face, not multiple farmers”. Her company sources produce from smallholder farmers for over 15 supermarkets in Ghana. Eden Tree also trains farmers to meet quality and handling standards, and helps them manage.[25]

Another example of supply chain restructuring is the Masara N’arziki Farmers Association (MAFA) – Weinco agreement. An input importer, Weinco sells superior quality maize seeds and other inputs to gender-based farmers organizations under Masara N’Arziki Farmers Association (MAFA) and agrees to buy their outputs at harvest time at pre-harvest agreed prices. Pioneer 30Y87 is an improved maize seed sold to MAFA farmers. It gives 50 to 100 per cent higher yields than the open pollinated local variety, and consistently generates more profit. However, higher seed and fertilizer costs posed barriers to its adoption by smallholders. By offering contractual agreements to guarantee market and fertilizer credit at the beginning of the season, MAFA enabled smallholder maize producers in Northern Ghana to adopt the Pioneer 30Y87 seed. In addition to this guaranteed market, MAFA members receive extension services. These help them improve productivity and adopt environment friendly production practices that reduce soil damage associated with intensification. After receiving the maize crop from farmers, Weinco sells it on to large processors such as Premium Foods for distribution to local supermarkets.

However, many international supermarket chains are unable and unwilling to procure their foods from these local supply chains. Their value chains impose standards and demands that are totally out of sync with the small farmers who supply 80 per cent of the food produced on the continent. These farms tend to produce traditional food crops using local seed varieties, which may be nutritious and appeal to local consumers but may not meet the supermarket chain's quality standards.

Some supermarkets attempted to develop local supply chains by getting farmers to grow and package food for them according to their standards. But such top-down projects returned little success. Casino's partner Mercure International recently tried to develop a local sourcing program for its Prosuma supermarket chain in Côte d'Ivoire, involving a detailed contract and the provision of seeds and chemical inputs. It failed with 90% of the participating farmers.[26]

The rise of the people’s markets in Africa

Parallel to the decline of the supermarket model, the quiet and perhaps less noticed rise of smaller and locally owned outlets is leaving its mark on the supermarket landscape in some key African cities. These smaller supermarkets have less dependence on imported goods and leverage their smaller footprint requirements to strategically locate their outlets nearer residential areas. This positioning strategy leads to them being known as the people's food markets.[27]

The rise of people’s food markets is partially due to the capability of these new ventures to procure produce from local farmers, previously seen as being difficult to work with, through agricultural contracts. The people’s market business model relies on this strength, along with its strategic choice of locations near middle-class residential areas and its capability to balance its smaller scale with a relatively wide variety of products, many of which are locally sourced.

The way forward

The decline of foreign owned international supermarkets in large economies such as Nigeria and Kenya correlates to the rise of people's food markets. One feature of the people’s market that buffers the business model from the ongoing macroeconomic deterioration is their limited dependence on imported goods. Unlike conventional supermarkets, people’s food markets worked hard to overcome some of the key barriers to smallholder market participation. This enables them to offer buyers locally grown products that meet high standards.

To answer to the question of whether the supermarket revolution is facing an early end, the findings suggest the answer is no. We argue that the revolution is entering a new phase where local investors are entering the scene, although at a slower rate than current FDI departures, with a business model that gives priority to local procurement. These local investors were able to overcome the many difficulties of procuring locally. One way they organised this is by cooperating local aggregators that worked with smallholders to ensure quality and consistency. This did not come automatically. Aggregators used contractual agreements and farmers group enforcement to create sufficient incentives for smallholder famers to comply to their agreements with the aggregators. The problems of high transactions costs for properly settling contract disputes, and the often-weak arbitration mechanisms for agricultural contract disputes or disagreements, still remain. New research is ongoing to determine the contract attributes that effectively incentivise smallholder farmers to comply with their contractual agreements.

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